

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7955

BILL NUMBER: SB 536

NOTE PREPARED: Apr 6, 2005

BILL AMENDED: Apr 5, 2006

SUBJECT: Skills 2016 Training Fund and Life Long Learning Credit.

FIRST AUTHOR: Sen. Clark

FIRST SPONSOR: Rep. Borror

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *Life Long Learning Tax Credit:* The bill establishes a Life Long Learning Tax Credit Program. The bill requires the Department of Workforce Development (DWD) to conduct a study of the impact of the Life Long Learning Tax Credit Program. The bill transfers 0.5% in the state fiscal year beginning July 1, 2005, and 1% percent thereafter of the money in the Skills 2016 Training Fund (Fund) to the state General Fund to replace money lost from granting Life Long Learning Tax Credits and from administrative fees retained by the DWD.

Skills 2016 Training Fund: The bill transfers the Skills 2016 Training Fund (Fund) to the Economic Development Corporation (Corporation). The bill requires the Corporation to enter into an agreement with the Department of Workforce Development (DWD) to administer the Fund. It requires the Secretary of Commerce to allocate the money in the Fund to employers and consortiums for worker training grants, after considering recommendations made by DWD. It also requires that Ivy Tech State College be given special consideration to be the provider of training obtained through the Fund when: (1) Ivy Tech courses meet the needs of an employer or consortium; and (2) Ivy Tech is the most cost effective provider. The bill establishes a sunset for the Fund of December 31, 2008 and abolishes the Incumbent Workers Training Board. The bill also repeals obsolete statutes concerning the Fund.

The bill annually allocates \$500,000 from the Skills 2016 Training Fund for training and counseling assistance for unemployed minorities and women. The bill also requires the Economic Development Corporation (Corporation) to award training and counseling assistance grants in accordance with DWD guidelines.

Effective Date: (Amended) Upon Passage; July 1, 2005.

Explanation of State Expenditures: (Revised) *Skills 2016 Training Fund Changes:* The bill sunsets the Skills 2016 Training Fund and Program as of December 31, 2008. The bill also provides for other changes in the administration and distribution of the Skills 2016 Training Program and the Skills 2016 Training Assessments. The bill makes the following changes with respect to funding decisions and oversight relating to the Skills 2016 Training Program and Fund.

(1) The bill eliminates the Incumbent Workers Training Board and the oversight by the Unemployment Insurance Board for disbursements by the Training Board from the Skills 2016 Training Fund.

(2) The bill transfers responsibility for funding decisions relating to the Skills 2016 Training Program and the Training Fund to the Indiana Economic Development Corporation (IEDC).

(3) The bill requires the IEDC to enter into an agreement with the DWD to administer the Fund.

The bill also eliminates specific allocations of Skills 2016 Training Assessments and adds new allocations of Skills 2016 Assessments. These changes are as follows.

(1) Under current statute, the first \$450,000 in annual assessments is distributed to the Special Employment Training Services Fund. This money is to be allocated by the DWD for job counseling or training provided by state educational institutions or job counseling or training provided to certain unemployed persons by the DWD. Under the bill, this distribution would be eliminated and the amount would be distributed to the Skills 2016 Training Fund. The bill also eliminates the responsibility for the DWD to allocate \$450,000 annually for this purpose.

(2) The bill eliminates the distribution of money in the Skills 2016 Training Fund to Ivy Tech State College for training and apprenticeship programs, and to Incumbent Worker Training Programs.

(3) The bill requires that 1% of the money in the Skills 2016 Training Fund annually is to be transferred to the state General Fund to replace revenue lost due to taxpayer's claiming the Life Long Learning Tax Credit created by the bill (see separate discussion of the tax credit below).

(4) The bill requires that \$500,000 is annually allocated from the Skills 2016 Training Fund for training and counseling assistance for women and minorities who have been unemployed for at least four weeks and are not eligible for training assistance under other programs.

(5) The bill requires that after the allocations described in (3) and (4) above and payment of assessment refunds, the money in the Skills 2016 Training Fund is to be allocated by the IEDC to employers or consortiums for incumbent worker training grants.

Life Long Learning Tax Credit: The bill establishes a Life Long Learning Tax Credit Pilot Program for employers, and their employees, statewide. The bill provides for the Department of Workforce Development (DWD) to administer the Program. The bill provides that a 1% annual share of the assessments in the Skills 2016 Fund is to be transferred to the state General fund to pay for Life Long Learning Tax Credits allocated by the DWD. The bill also provides for the DWD to be reimbursed for the cost of administering the tax credit program from this allocation.

Due to the limited amount of credits that may be available, the number of employers applying for the tax credit

program may be limited. As a result, it is estimated that the Program could potentially require one COMOT 3 position and one EMS VII position in the DWD to administer the program. This estimate is based on current staffing of various economic development grant and incentive programs at the Indiana Department of Commerce. *The total cost for these two staff members, including salary, fringe benefits, and indirect costs, is estimated to be \$95,249 in FY 2006.* The February 2, 2005, state staffing table indicates that the DWD had 95 vacant full-time positions, including regional office positions. Of this total, 18 vacancies are COMOT positions and 14 vacancies are ESM positions.

The Department of State Revenue (DOR) also would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. The DOR is also responsible for recovering tax credits from employees and employers when they are forfeited due to ineligible use of life long learning account funds. The DOR's current level of resources should be sufficient to implement these changes.

Background: The Skills 2016 Training Program is established to: (1) improve manufacturing productivity levels in Indiana; (2) enable firms to become competitive by making workers more productive through training; (3) create a competitive economy by creating and retaining jobs; (4) encourage the increased training necessary because of an aging workforce; (5) avoid potential payment of unemployment compensation by providing workers with enhanced job skills. The Program is funded through an assessment on unemployment insurance taxable wages of employers. Under current statute, the unemployment insurance rate was reduced by 0.1% beginning in 2002 and an assessment of 0.09% has been assessed for the Skills 2016 Training Program. These provisions are not changed by the bill.

Under current statute, the Incumbent Workers Training Board administers the Skills 2016 Training Fund and the Department of Workforce Development must provide staff support for Board. The Board consists of four members appointed by, and serving at the pleasure of, the Governor. One member each is to be appointed from a list of nominees provided by the UAW Region 3, the Indiana AFL-CIO, the Indiana Manufacturers Association, and the Indiana Chamber of Commerce. The Board makes recommendations to the Unemployment Insurance Board for disbursements to programs from the Fund. Current statute specifies that 55% of the money in the Skills 2016 Training Fund is to be allocated to Ivy Tech State College for use in providing training and apprenticeship programs. The remainder of the money in the Fund is to be used for refunds of erroneously paid training assessments and for other incumbent worker training programs.

Under current statute, revenue from a 0.09% assessment on unemployment insurance wages of employers is deposited in the Skills 2016 Training Fund. In FY 2004, the assessment generated about \$16.0 M for the Fund, and the FY 2004 ending balance in the Fund was \$32.7 M. As of January 11, 2005, assessments to the Training Fund for FY 2005 total about \$2.5 M, with the balance totaling about \$31.5 M. *It is estimated that a 1% allocation from the Fund could potentially total about \$315,000 to \$325,000 annually.*

Explanation of State Revenues: (Revised) *Life Long Learning Tax Credit:* The bill could potentially result in an annual transfer from Skills 2016 Training assessments to the state General Fund to pay for Life Long Learning Tax Credits under a pilot program established by the bill. The bill prohibits the amount of credits allocated each year from exceeding this annual transfer. *Based on the current balance in the Skills 2016 Training Fund, this transfer could potentially total about \$314,000 to \$324,000 annually (this is after deduction of an amount to pay for administrative cost of the DWD).* Since the credit is effective for tax years 2006 and after, transfers could be required in FY 2006 and FY 2007. The estimated transfer would pay for 628 to 648 \$500 Life Long Learning Tax Credits each year. These credits could be allocated to employees who

have contributed to their own life long learning accounts, or to employers who have made matching contributions to accounts of their employees.

Background: The bill establishes a pilot program for a nonrefundable Life Long Learning Tax Credit to be administered by the Department of Workforce Development (DWD). The credit could be taken against a taxpayer's Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or the Insurance Premiums Tax liability. The tax credit would be granted for qualified employee contributions and employer matching contributions to life long learning accounts established for the employee by his or her employer. The DWD is responsible for allocating credits for qualified employee contributions and employer matching contributions to life long learning accounts.

The tax credit for contributions to a life long learning account by an employee of a participating business and the tax credit for each contribution by the participating business to an employee's life long learning account, is the lesser of: (1) the contribution to the account; (2) \$500; or (3) the credit amount allocated to the employee or business by the DWD for the taxable year. To qualify for the tax credit, an employer must establish a life long learning account for each employee. An account would hold in trust an employee's contributions and his or her employer's matching contributions to pay eligible education expenses of the employee. The credit is nonrefundable, but credits in excess of the taxpayer's state tax liability may be carried forward to subsequent tax years. The taxpayer is not allowed to carry back any unused credit. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity. The bill limits the total credits allocated in a fiscal year by the DWD to 1% of the money in the Skills 2016 Training Fund.

The bill requires a taxpayer receiving life long learning credits to addback to Indiana AGI any deduction from federal AGI or federal taxable income the taxpayer claimed for the same educational expenses paid from the account. The additional AGI Tax revenue that might be generated due to this addback would be minimal.

The bill provides that an employee may withdraw his or her contributions to a life long learning account at any time for any purpose. However, the employee forfeits the tax credits for an amount withdrawn that is not used to pay for eligible education expenses or that is transferred to a life long learning account of another employer. Employers are allowed to transfer employer matching contributions to another account without forfeiture of tax benefits.

The tax credit is effective beginning in tax year 2006. Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Economic Development Corporation; Department of Workforce Development; Unemployment Insurance Board; Incumbent Workers Board; Ivy Tech State College; Department of State Revenue.

Local Agencies Affected:

Information Sources: U. S. Census Bureau, *2002 County Business Patterns*.

Fiscal Analyst: Jim Landers, 317-232-9869.